Attachment 1

WILSHIRE CONSULTING

Michael C. Schlachter, CFA
Managing Director & Principal

March 5, 2009

Mr. Joseph Dear
Chief Investment Officer
California Public Employees' Retirement System
400 P Street, Suite 3492
Sacramento, CA 95814

Re: Environmental Equity Allocation

Dear Joe,

You requested Wilshire's opinion with respect to Staff's request for an increase in the allocation to environmental equity strategies from 0.5% to 2.0% of Global Equity assets.

Recommendation

We believe that the current size of this allocation is insignificant for CalPERS and should either be expanded or terminated. We are reluctant to endorse expanding a delegation and an allocation to a strategy without any information on how the money will be invested and believe that Staff should further elaborate their plans to invest any additional capital. However, we believe that 2% of Global Equities is a fairly small position and will not meaningfully increase risk to the portfolio, from a total risk or tracking error standpoint.

Discussion

As we noted in August, 2008, during the annual renewal of the contracts for the external managers, Wilshire has had a number of discussions about Staff regarding the future of this program, and these discussions remain ongoing. One of the main issues we are struggling with is how to make this program live up to its original charge of reducing investment risk from climate change and potentially "doing good" while still "doing well." One concept that Wilshire and Staff have been discussing is to change the focus of the program from one of conventional investment products with an environmental screen applied to a program that is focused more on public entities in the renewable energy, recycling, battery production, or carbon sequestration industries. In this way, rather than simply divesting the worst polluters from a small section of the equity portfolio, CalPERS might be able to encourage the growth and development of industries and products that can result in positive change.

Staff has discussed developing internal strategies based either on existing indexes with environmental screens applied or new indexes that target companies whose primary business revolves around the environment. Were these portfolios to be shifted from external management to internal management, expenses could be reduced substantially without a meaningful impact on portfolio risk.

We will keep the Investment Committee apprised of these discussions as they move forward.

Sincerely,

Michael C. Schlachter, CFA